

**VIRGINIA TOBACCO INDEMNIFICATION AND
COMMUNITY REVITALIZATION COMMISSION**

LONG RANGE PLANNING TASK FORCE

Wednesday, December 4, 2002

3:00 p.m.

Senate Room 4, Capitol Building

Richmond, Virginia

LONG RANGE PLANNING TASK FORCE

Dr. Thomas Morris, Co-Chairman
Senator Frank M. Ruff
Senator Phillip P. Puckett
Senator Charles R. Hawkins
The Honorable Allen W. Dudley
Secretary Michael Schewel
Mr. Thomas W. Arthur

PARTICIPATING BY TELEPHONE

Mr. Charles Majors, Co-Chairman
Senator William C. Wampler, Jr.
The Honorable Mary Sue Terry

STAFF

Charles F. Currin, III, Executive Director
Mary Cabell Sherrod, Manager of Communications and Committee Operations
Stephanie S. Wass, Director of Finance
Anne Marie Cushmac, Senior Assistant Attorney General, OAG

DR. MORRIS: I think everyone is at the table that we were expecting.
On the telephone we have Senator Wampler, Charlie Majors, and Mary Sue Terry, a new

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1 member of the Commission, is going to join in the conversation at some point later on.

2 MR. CURRIN: Yes, sir, that's correct, Mr. Chairman.

3 DR. MORRIS: Does anyone else need a copy of the draft? My
4 preference would be that the weather would be better and that we would be in Roanoke,
5 and we'd be at the Hotel Roanoke with that unlimited refreshment bar, but this is going to
6 have to do for this afternoon. We'll meet and talk for a while until it gets to be about five
7 o'clock or the snow starts. We've got time now to look at this. Let me say a word or two
8 of introductions, and then I'm going to call on Charlie, who's down in Danville.

9 Senator Hawkins was kind enough when we started this process some months ago
10 to say to Charlie and me that our charge was to provide some leadership for this Task
11 Force and to identify the priorities for the expenditures of the Tobacco Commission as we
12 go forward, particularly following securitization, and that is what we've attempted to do.
13 It was suggested we look at everything and take a fresh look at it, and that's what we've
14 tried to do. After several meetings at the Hotel Roanoke we invited people to come in
15 and give us various perspectives on the issues in the tobacco region, and those were very
16 helpful presentations. About three meetings ago we began to put on the table at the end
17 of each one of those sessions, a pretty candid and open-ended broad-ranging sort of
18 discussion of what the priorities might be. At the last meeting we had a chart that began
19 to give some indication of the ways in which the final report might look and how the
20 monies might be allocated as we go forward.

21 This, of course, is a proposed draft that would eventually go to the Full Tobacco
22 Commission and the Governor, and this is obviously something that we want to finish up
23 as quickly as we can.

24 Charlie Majors, let me call on you, and then we'll ask Senator Hawkins to say a
25 few words, since he got us started. From Danville, what would you add?

26 MR. MAJORS: Thank you, Tom, and I apologize for not being able to be
27 there. I've got to be back here tomorrow, and I was just afraid I might not make it. One
28 thing I'll say is that the draft you have received or that you have in front of you is our
29 attempt to sort of put in a little more detail on what Tom and I think we sort of generally
30 agreed on at the last meeting. While you may look at some things and say where did that
31 come from, we felt like this is consistent with what we've been discussing and certainly
32 in general terms is consistent with where we felt we left the last meeting. I felt we sort of
33 needed to set that context, that's all.

34 DR. MORRIS: All right, thank you. I got bored driving up here today
35 and I read some of the minutes from our last gathering. I read where Senator Ruff said he
36 hoped we could come up with one page and twenty pages behind it, and I guess we didn't
37 do it in that order, but we basically have, with one page, a chart with seven pages of
38 commentary in front of it but it was intentionally not a long document and tried to be to
39 the point. It's something that I would hope we could communicate not only to the
40 Commission but to the Governor and to other members of the General Assembly and to
41 the community and interested citizens as to what the priorities would be as the Tobacco
42 Commission goes forward.

43 Senator Hawkins, you got us started on all of this, so let me turn to you.

1 SENATOR HAWKINS: First of all, I want to thank both of you for the
2 work that you've done. My first look at this shows that a lot of thought has gone into it
3 and basically seems to be leading us in the direction that we talked about. When you
4 look at the charge that we have, it's not a small responsibility, nor is it one that should be
5 taken lightly. We've been given charge of really a great deal of money that will possibly
6 have the effect of changing the economic conditions of an entire region of the state of
7 Virginia, which is in need of having some sort of positive infusion of new ideas and new
8 capital and new direction. With this basic plan, hopefully, our job will be able to head in
9 the direction to give some long-term stability to programs and projects in place looking at
10 the regional effects of these projects long-term on the people that we represent.

11 If you look at our area, although tobacco has been the driving force behind this, it
12 is somewhat ironic that at the same time the tobacco industry is under such great pressure
13 all these other base industries are in the same condition. Furniture, textiles, everything
14 that we depended on as base industries throughout our history are under the same
15 pressure today as the tobacco industry. It's also ironic that the one thing that made us
16 wealthy as a Commonwealth could very well be the same monies that make us wealthy in
17 the region again, and that's tobacco. It's always been there for us, and it's going to help us
18 through this rough period we're in today. Using this as a guideline and understanding
19 what our charge is and not to put in place something that has one shot capabilities but
20 long term stability and being able to stand for a long period of time helped change these
21 economies.

22 Also an understanding that the Commission was put in place for a diverse group
23 of people to come up with a common vision of how we approach the economic destinies
24 of these areas that deal with education, economic monies for development and be able to
25 create something that I was very pleased to see, and that's ownership back in the region.
26 To be able to control our own economic destiny. As I've said many times before, the
27 thing that has concerned me as much as any one single factor is the loss of ownership and
28 therefore the loss of control, and we've got to get control back in our communities by
29 these monies being invested in the private sector to create entrepreneurial interest, and I
30 think that is the direction to go in.

31 Again, Tom and Charlie, I want to thank both of you all for the yeoman work that
32 you've all done in this, and it shows a great deal of thought and also a great deal of
33 compassion for the areas and the responsibility you all have. Thank you.

34 DR. THOMAS: Thank you. Senator Puckett has just joined us, welcome
35 Phillip.

36 SENATOR PUCKETT: Thank you.

37 DR. THOMAS: William Wampler and Charlie Majors are in other parts
38 listening in on the phone. Do you have a copy of the draft?

39 SENATOR PUCKETT: Yes.

40 DR. THOMAS: Let me say a couple of words about the draft, and then
41 we'll open it up for discussion.

42 The first two pages on the vision were intentionally brief, but they did try to
43 document the conditions that Senator Hawkins just referred to talk about the needs for a

1 network society and that sets forth proposals that securitize money to be set up in
2 categories to operate on the model of a foundation and not precisely like a foundation but
3 certainly like a foundation in the sense that there would be standardized applications and
4 application forms. There would be two or three program officers that would work in the
5 four areas that have been set forth and parallel what we've been talking about at our last
6 meeting, to build the telecommunication infrastructure and build the human
7 infrastructure, building conditions for innovation and building regional development
8 capacity. We did then under each one of those four categories set forth the rationale as
9 well as some objectives and strategies. This is not a full-blown strategic plan, so
10 strategies are not necessarily tied to particular objectives. It was intended to give some
11 indication of the sorts of activities that would be involved under each one of these
12 categories.

13 We were very sensitive to the discussions we had had in the last two or three
14 meetings that there be a good amount of flexibility left in the priorities that we have
15 established, and that's certainly intended to be the case in the ways in which this is set up.
16 It still has a significant regional development capacity which would work very much the
17 way it has been working, but there would be other priorities as well.

18 This draft also tried to talk about the tobacco region so it wasn't seen as two
19 separate regions but that there was common problems across the entire tobacco region as
20 it's been defined by the Tobacco Commission legislation.

21 We also had on the board at the last meeting, if you look at the last page, some
22 general funding policies. This may not be an exhaustive list, but we wanted to give some
23 indication here of the sort of guidelines that would be used by the Commission at least
24 for the sorts of things that we talked about. We took out some that seemed to be
25 redundant and not relevant, but tried to get some general restrictions and guidelines to the
26 Commission.

27 One of the issues that I know Senator Wampler had talked about at the last
28 meeting was not funding annual operating costs, and I think we do have a provision in
29 there that funding should not be used for annual operating costs beyond first year start up
30 costs and trying to address that principle, and by and large the money would not be used
31 to support operating costs. You likewise probably can read into that salaries as well,
32 other things that Senator Wampler mentioned. Let me stop there. Secretary Schewel,
33 you had a chance to look at this, what are your comments?

34 SECRETARY SCHEWEL: In addition to echoing Senator Hawkins'
35 comments I thought that the Chairman really led us well. One thing on page eight, and a
36 bit of explanation about that, Tom, Charlie or Stephanie, and correct me if I go astray
37 here, but by way of explanation I think what we came up with in terms of the endowment
38 percentages was really derived from the amount of cash flow that we thought would be
39 necessary for a particular category. So, it was sort of working from the cash flow back.
40 For example, if we do three or four million dollars of scholarships, then how much of the
41 Corpus of the trust of the funds are necessary to get there, and that's sort of the way in
42 which we came up with those numbers. The other thing I think we thought about was are
43 there aspects of the work of the Task Force that are anticipated and need to be done with

1 a fair amount, a lot of cash or a fair amount of cash sooner, and are there other aspects
2 like scholarships that might be done over twenty years.

3 Whereas, for example, the telecom infrastructure is something that needs to be
4 done now. The thought is that some of these things you're really setting up almost an
5 endowment type arrangement with very little invasion of the corpus. In other ones you're
6 using both principal and the earnings to get done what the Commission thinks needs to be
7 done. When you're looking at that page eight that's sort of how that was derived, a
8 combination of those two approaches both of which really start from how much cash do
9 you need to do what needs to be done and then working back from that as to how much
10 of the securitized proceeds you'll in a sense need to set aside for that purpose.

11 DR. MORRIS: It has flexibility built into it, because you can see under
12 indemnification it suggests that fifty percent of excess earnings in a given year be
13 distributed proportionately to other funds so the commission would not just have money
14 sitting there for indemnification if it was not needed. I think the intention here was to
15 come up with a proposal that would provide the Commission with the flexibility to
16 continue to serve the tobacco region as it as begun to do with the initial funds, at the
17 same time reassure other governmental officials and the citizens that in fact the
18 Commission is operating from some general priorities and guidelines as new monies
19 come on board. At this point let's open it up for discussion.

20 SENATOR RUFF: Tom, going to page nine and the first year start up
21 costs. I agree with Senator Wampler that we need to control that, but do we need the
22 term first year in there, or are there some projects that are going to tie our hands so
23 projects that might take a year and a half or two years to get set up, or should we have
24 our hands tied? I'll leave that to William, it was his idea.

25 SENATOR WAMPLER: Mr. Chairman, I will say I don't think there's
26 one answer that fits all of the questions concerning the operating costs. I think we ought
27 to set as a policy that we would not entertain any long term operating costs. I think
28 Senator Ruff makes a very good point that there may be circumstances for a period of
29 eighteen months, or as much as twenty-four months, or perhaps even longer, where we
30 may have to do it and ultimately that would be the Commission's suggestion.

31 I would also make the observation that much beyond one year it's hard for a
32 Commission to obligate itself. So, I think within the operating budget on an annual basis
33 that we have it's hard to obligate ourselves beyond that one year anyway.

34 DR. MORRIS: Stephanie has a comment on that.

35 MS. WASS: There may be an issue on how we structure the deal. Right
36 now we're looking at one hundred percent tax exemption issuance. If we do that we may
37 have some restrictions on being able to use these funds for working capital. Bond
38 council has advised us that could potentially be a problem.

39 SECRETARY SCHEWEL: That would mean no operating costs or only
40 capitalized costs.

41 MR. ANDERSON: Start up costs capitalized. You can use some limited
42 amount for working capital, but it just would not be an unlimited amount.

43 DR. MORRIS: There ought to be a way we could save this. I think

1 there's general agreement here that primarily the money would not be used for ongoing
2 operating costs.

3 SENATOR WAMPLER: I think that's it, Tom, excuse me for interrupting,
4 Mr. Chairman.

5 DR. MORRIS: If first year doesn't do it, then --

6 SENATOR RUFF: Mr. Chairman, I think the term start up defines it right
7 there.

8 DR. MORRIS: Get it right the first year.

9 SENATOR WAMPLER: Is the suggestion to take out first year there?

10 DR. MORRIS: Yes. Then council would have to tell you how much.
11 They'll always be interfering with you a little bit.

12 SENATOR RUFF: Mr. Chairman, under the building conditions for
13 innovation. I've already had comments from leadership development line. Does that
14 open us up to people putting presentations out there, selling us packages? Does that open
15 anything we shouldn't be opening? I'm just passing this question along.

16 SENATOR HAWKINS: Anything that's presented would get a vote of the
17 Commission to accept, wouldn't it? We have the final say regardless of.

18 SENATOR RUFF: I guess the question is, is it going to supplant
19 leadership programs that a number of counties already have through the Chambers of
20 Commerce, through the Jaycee programs and things like that?

21 SENATOR HAWKINS: I wouldn't think so, but at least in my mind.

22 MR. CURRIN: Some of the conversations would be to enhance some of
23 the existing, in some cases the localities don't have any help. I think that's what Mike
24 was driving at.

25 DR. MORRIS: We had several presentations that were made and
26 suggested that revitalization of the region needs leadership. So the question is how that
27 leadership is enhanced. I always felt that was a very small piece of what we were talking
28 about here.

29 SENATOR RUFF: I think it is, and I agree with you, Mr. Chairman, but
30 I'm just kind of putting you on notice that that question will arise to the Full Commission.

31 SENATOR HAWKINS: Before we do this and put the language in the
32 final draft and working in coordination with local groups fostering leadership initiatives
33 to make sure that utilization of resources in place are used properly or something like
34 that.

35 MR. MAJORS: I don't think we're necessarily looking to replace what's
36 there, but I know even here in Danville and Pittsylvania County we've got leadership
37 Southside, and we've seen the need to do some additional leadership training and
38 cultivation to even get people where they would be into that class. So, some
39 supplemental stuff that we're already doing.

40 DR. MORRIS: We might be able to add some language there to talk about
41 leadership to supplement but not supplant.

42 TELEPHONE OPERATOR: Mary Sue Terry is now joining you, you may
43 continue.

1 SENATOR PUCKETT: Mr. Chairman, on page nine of the draft general
2 funding policies, don't you think the first issue there would cover what we're talking
3 about, we're saying we're not going to do that, it's already there.

4 SECRETARY SCHEWEL: I believe that Anne was saying that the
5 research on trying to spread technology to a community suggests that if you don't spend
6 money and all you do is put it in hard infrastructure and you don't spend money building
7 the community that can utilize the technology and support it and be an advocate for it, the
8 research shows that the hard infrastructure doesn't accomplish the purpose that you're
9 seeking to do. I think this is partially in response to that concern she had.

10 MS. TERRY: This is Mary Sue Terry, I've been waiting to be patched in
11 here so, and I wanted to listen in on the meeting and perhaps participate.

12 DR. MORRIS: This is Tom Morris. Welcome, do you have a copy of the
13 draft we're talking about?

14 MS. TERRY: Yes, I do. I got it about two hours ago and I've been
15 looking over it. I'd like to be brought up to date on what you discussed so far.

16 DR. MORRIS: We started about a half an hour ago, and we have begun
17 looking at the draft and right now on page five talking about building conditions for
18 innovation.

19 MS. TERRY: Yes, okay, because I've been waiting on the call. Was that
20 just Mike that commented on building communities?

21 DR. MORRIS: Yes.

22 MS. TERRY: I share, I think it's quite remarkable the work that
23 everybody does, and I'm quite aware I'm the new person on the block, but I also didn't
24 request this appointment. I'd like to reinforce a little bit of what Mike said, because my
25 concern is that just in listening to some of the conversations about the Commission's
26 work, down the road people are going to say that this area has needs, and you have the
27 Tobacco Commission money, and people say I thought the Lottery was supposed to take
28 care of education. What I'd hope to see reflected at some point in the report is a larger
29 framing related to community and leadership and reflecting that we are part of a larger
30 Commonwealth. I don't think there'll ever be a time when we will not need to have more
31 tax monies coming to our region for education than will be needed in Fairfax. My
32 question is how can we build a community and restore and create vitality but at the same
33 time recognize that we're interdependent and part of the Commonwealth and part of the
34 state of Virginia and not a state separate to ourselves, and we're not going to have the
35 same well that folks do in Northern Virginia. Leadership is really going to be critical,
36 leadership development which can be developed and is critical to that process. Thank
37 you.

38 DR. MORRIS: Thank you.

39 SENATOR HAWKINS: I walked in the middle of the conversation, Mary
40 Sue, and I've never been shy of voicing my opinion on some things I don't know what I'm
41 talking about, so I'll get right into it. Comparing us to other sections of the state I think is
42 not necessarily a fair comparison. We have an understanding of what our charge is and
43 although we may not have the deep wealth that some of these other areas may have today,

1 we can certainly invest wisely, and by doing that we can give ourselves an advantage
 2 using our population and our strength they do not have. We have a more stable
 3 population and not quite as transient as some other sections of the state, so we have some
 4 foundation to build on that other areas can be very envious of. We have natural resources
 5 such as water and land that would put us in a very enviable position when it comes to
 6 development. Our charge is to make sure we leverage these monies to make sure that we
 7 get the maximum benefit for our area. By doing that it gives us a competitive advantage.
 8 I can see that taking place in telecommunications as well as in educational research. So,
 9 I look for us to be able to be once again one of the leading focal points of the
 10 Commonwealth's future.

11 MS. TERRY: I certainly moved back here, and I moved back here for a
 12 reason. I don't disagree with anything you're saying. I'm just saying we're part of the
 13 Commonwealth, and we're interdependent, and our future is dependent on others making
 14 wise decisions as well. Leadership development is a huge part of that.

15 DR. MORRIS: That certainly is in there under building conditions for
 16 innovation and entrepreneurial and leadership development, and that's one of the
 17 categories. Also building human infrastructure. I might point out that the footnote on
 18 page eight suggests this analysis is based on a twenty-five year period with the bonds.
 19 Stephanie can give you all sorts of different time periods and ramifications if you wish to
 20 have those. For purposes of this draft she used a twenty-five year period which would
 21 yield 683.1 million dollars. We put the categories in the percentages so you could choose
 22 to do it for a longer period of time and use the same percentages.

23 MR. MAJORS: But with that twenty-five year, securitizing twenty-five
 24 year bonds, basically those bonds are going to be redeemed over a fourteen year period.
 25 We're really talking about, when we talk about spending down to coincide with the bond
 26 repayment, we're really talking about a fourteen year period of time, you need to be
 27 aware of that too.

28 SECREATRY SCHEWEL: And a corollary to that, Charlie, then in year
 29 fifteen we have the reestablished cash flow again just like we would have had without the
 30 securitization.

31 MR. MAJORS: That is correct. So, what we're really talking about is the
 32 next fourteen years with regard to this.

33 DR. MORRIS: I guess what we heard in our discussions was that the
 34 issues that need to be addressed are serious enough that they need to be addressed in
 35 many of these categories sooner rather than later, and that there's going to have to be
 36 some significant expenditures in the next several years to begin addressing these
 37 problems rather than spreading it out over a longer period of time.

38 MR. MAJORS: The other thing that everyone needs to be aware of is that
 39 on page eight where we talk about estimated annual cash flow that is Stephanie's estimate
 40 of the cash flow that includes not only earnings but also some corpus invasion in those.
 41 The more the corpus is invaded early, and this is a decision the Commission will have to
 42 make from year to year, but the more that it's invaded early there may be less toward the
 43 latter part of that fourteen year period. That would be a decision, as Tom said, based on

1 maybe things need to be spent sooner rather than over a level period of time. As you see,
2 we've provided in there for telecommunications infrastructure to be paid out over a
3 shorter period of time, because our feeling is that they're going to come in and say we
4 need to do it over a very few years rather than over fourteen years. That's a decision the
5 Commission will have to be making, but I guess the main thing I wanted to make
6 everyone aware of is that when you look at that cash flow that's going to depend on not
7 just the earnings, but also how much in principal is invaded as you go along.

8 DR. MORRIS: You might just look at that invasion of principal there and
9 see if anyone else has any other suggestions. Under indemnification could invade corpus
10 to coincide with bond repayment if needed for additional losses. Telecommunications
11 spend down as necessary, building human infrastructure, limited corpus invasion there,
12 one percent or less.

13 SECRETARY SCHEWEL: When you're doing these numbers, is the one
14 percent of seventeen percent, or one percent of six, or one percent of the total?

15 MR. MAJORS: We were proposing one percent of whatever the dollar
16 amount is in there, not one percent of the seventeen.

17 MS. WASS: That would be one percent of the seventeen percent.

18 MR. MAJORS: Oh, would it?

19 MS. WASS: Yes.

20 MR. MAJORS: I apologize, I thought we were talking about one percent
21 of the principal.

22 MS. WASS: Of that portion of the principal.

23 MR. MAJORS: Of that portion of the principal, but it wouldn't be like
24 going from seventeen to sixteen, which is actually more like five percent of principal.

25 MS. WASS: That's right.

26 DR. MORRIS: One percent of the principal?

27 MR. MAJORS: Right.

28 DR. MORRIS: The building conditions for innovation you'll notice we
29 are proposing five percent or less but some corpus invasion there.

30 SECRETARY SCHEWEL: That was the source of my question, and this
31 is just a question of mathematics which I always did poorly at, at school. If you did \$650
32 million twenty percent about \$32 million.

33 MR. MAJORS: Right.

34 SECRETARY SCHEWEL: Five percent of that is about 1.5 million or
35 some number like that. I was having trouble getting seven and nine million with only
36 five percent and twenty percent being invaded.

37 MS. WASS: Plus the earnings.

38 SECRETARY SCHEWEL: I didn't know how much the earnings would
39 be. I figure earnings would be tax exempt. Not more than -

40 MR. MAJORS: Three point something percent is what she has calculated.

41 MS. WASS: Three point one percent.

42 DR. MORRIS: Stephanie is calculating.

43 MS. WASS: Basically with a five percent corpus invasion you're talking

1 about earning a three point one percent, which is restricted earnings, being about between
2 three and four percent, three and four million per year. Then if you also invade the
3 corpus that could range from three to five to six million in certain years.

4 MR. MAJORS: If you've got twenty percent of the six hundred eighty-
5 three that's about one hundred thirty-six million dollars, and five percent of it would be
6 six point eight million.

7 SECRETARY SCHEWEL: I did my math wrong, which in not
8 uncommon.

9 DR. MORRIS: You've warned us.

10 SECRETARY SCHEWEL: Yes.

11 DR. MORRIS: In the last category corpus invasion may be accelerated
12 for earlier increased cash flows at the wisdom of the Commission.

13 SENATOR RUSS: Stephanie is talking about a nine and a half percent
14 quota reduction next year. How will that, if we had securitization today, how would that
15 play into that?

16 MS. WASS: There is no mandate as far as how quickly we have to
17 compensate the farmers. We made three years of payments to date, and we're still paying
18 off the first year right now. This year we're about to pay off the remaining years, so it
19 depends on what the losses are. 2002 if the quota goes down ten percent, there'll be a
20 huge liability suddenly that we will start working away at paying down. As we pay down
21 in succeeding years the quota may actually go up, which has happened in the past also.
22 Generally, there's no mandate as far as timing how quickly we pay it off.

23 SECRETARY SCHEWEL: So, it goes down in year one, and then we pay
24 them for having gone down, and then it goes back up in year three they get a windfall.

25 MS. WASS: Right, because they're not going to pay us back. It works
26 maybe to the Commission's advantage to show how quickly you compensate them,
27 because the likelihood that it goes up in the out years is high.

28 DR. MORRIS: Does everybody understand that?

29 MR. CURRIN: There's a lot of speculation there.

30 DR. MORRIS: anything else on this page?

31 DELEGATE DUDLEY: I have one question. Stephanie, have you looked
32 at those percentages to see what would happen if a particular community like Danville
33 that has gone out and committed ten years of its money towards a particular project,
34 what's left for Danville under this formula?

35 MS. WASS: They would still have at least a million, because the way this
36 is set up depending on how much the Commission decided to withdraw in any given year.
37 I think in the past the total Southside allocation has been as low as fifteen million
38 dollars, I think that's the lowest point. So, if it went below that proportionately they
39 would all receive less, but I think because Danville and Pittsylvania County allocations
40 were so high, even when they're reduced they still receive at least a million.

41 DELEGATE DUDLEY: That's a reduction from the current three or four
42 million dollars?

1 MS. WASS: Right, I can run that number for you real quick.

2 SECRETARY SCHEWEL: That's four million dollars now.

3 SENATOR HAWKINS: Allocated one million dollars for each locality for
4 the next twelve years to pay off the bonds. We may have to look at something that would
5 change the dynamics, we probably have to look at the overall allocation and how we
6 handle that and put that on the table and get rid of that obligation and then start from
7 scratch.

8 SECRETARY SCHEWEL: The other thing that makes the numbers very
9 squarely is we have an infinite unknown, uncapped up or down indemnity obligation.
10 Twenty years from now if there's still quotas going up and down and we are still making
11 indemnity payments. Frankly, I don't know that that makes a lot of sense. It seems to me
12 that we'd have plenty to indemnify everybody at that point in the future, and if we at
13 some point said these indemnity payments are going to last for the next fifteen years and
14 that's the end of it, then let them make the whole calculation much easier and more
15 sensible calculations, because you don't have to leave open this number. Basically that
16 twenty percent indemnification then flows back into all the other pots. So, I think at
17 some point we'll have to, not right now, at some point it would be a policy issue and a fair
18 question as to whether the indemnity payments should continue for indemnification
19 fifteen years from now.

20 SENATOR WAMPLER: Mr. Chairman, just a follow-up on what the
21 Secretary tried to address. On page nine of the general funding policies I think I have
22 general support from the Commission when I say this. It's been a top priority, or our first
23 priority to indemnify our growers, and I'm not suggesting that the absence of a bullet
24 point on page nine suggests that we're doing anything other than that. I think we ought to
25 include that in a report unless we want our scalps handed to us when we go back to the
26 thirty-three member Commission.

27 DR. MORRIS: Are you suggesting we have a line there under general
28 funding policies that just confirms that?

29 SENATOR WAMPLER: I do, Mr. Chairman, and the substance of it and
30 the politics of it are very important. I think we need to address that. Senator Hawkins,
31 maybe you have thoughts on that matter.

32 SENATOR HAWKINS: I think you're right on target, and it's something
33 that certainly has been. The first charge we have is indemnification, and putting that in
34 our general policies is one of the main bullets and something we should certainly do.
35 Although all of us around this table understand that that is one of our primary goals,
36 spelling it out in the draft would certainly eliminate any misunderstanding.

37 DR. MORRIS: Let's make that the first bullet, then, and we'd draw up
38 some language that says that.

39 MR. MAJORS: It may be that what we wanted to say is at the beginning
40 something about indemnification being the first priority and then say that these other
41 policies apply to funding under these other four areas.

42 SENATOR WAMPLER: I think that addresses it, Mr. Chairman.

1 DR. MORRIS: We'll see that that's done rather than trying to draft that
2 right now. We understand what you're saying.

3 MS. WASS: To address Delegate Dudley's question earlier, if there were
4 \$10 million left for Southside to distribute, Danville would still receive \$1.1 million.

5 DELEGATE DUDLEY: You're getting close to that now.

6 MS. WASS: Right.

7 DR. MORRIS: One of the proposals in here is that we have program
8 officers, which we think would give some reassurance to this. It would not have to
9 dramatically add to the staffing, but it would call for a couple of people to be program
10 officers that would help oversee these programs. Any reactions to that?

11 MR. MAJORS: Just to sort of follow up, and I think our feeling was that
12 as we look at this large sum of money, and as we go forward, one of the important things
13 we think there needs to be are some people who are looking at this and who can help all
14 the localities and help sort of coordinate this, can help put the ideas together and make
15 sure that they're being shared from locality to locality. It sort of follows that the concept
16 of a foundation, which is what they do, and we think that this is one of the very positive
17 things that this Task Force can recommend.

18 DR. MORRIS: Any comment or reaction to that piece of it? In the four
19 different categories, under objectives and strategies and rationale given, these are not
20 legally drawn, but this is an effort to define as best we could, and I think probably about
21 as well as this Task Force can, the general contours of those categories. Obviously, it still
22 leaves some flexibility and interpretation and application for the Commission, and I think
23 that's appropriate, but it does limit in some respects.

24 SENATOR HAWKINS: I think you have to have flexibility. I think
25 flexibility is important, and the changing nature of the region. Any commission that's put
26 in place over a long period of time, dynamics change and everything has a tendency to
27 evolve at certain points. You've got to have flexibility, if not you'll find yourselves going
28 back every time you have a change in membership, so flexibility is important.

29 DR. MORRIS: Charlie, anything else you think needs to be singled out?

30 MR. MAJORS: I don't think so, I think we've hit on everything that we
31 talked about in our meetings.

32 SENATOR RUFF: Mr. Chairman, as a bookkeeping question, you're
33 saying one hundred percent of the administration be divided among the four categories or
34 five categories. Do you split Carlton up five ways, or should there be one pocket left for
35 overall administration?

36 MR. MAJORS: We suggested that it be proportionately charged, the cost
37 to be allocated, twenty percent would come out of the pocket of indemnification, fifteen
38 per cent out of infrastructure obviously honed down. I guess as you get further on down
39 and you paid out some of those, then the question is how you deal with that. We thought
40 that probably was the fairest way to do it. We just didn't want to leave money there and
41 create a separate pot for administration. We don't know exactly what those costs are
42 going to be, and we're trying to give you all the flexibility to deal with that. You may

1 have certain costs now that may be higher later on, or lower. You may cut back, or
2 whatever.

3 DR. MORRIS: Does the Commission want that flexibility?

4 SENAROR RUFF: I just raise it because I'm sure it'll come up at some
5 point.

6 MR. MAJORS: I think it's a good question. I guess our thought was that
7 we felt that it was appropriate to charge it against the funds there, and that's the only way
8 we've got to pay for it. The other option would be go back and proportionately reduce all
9 these and create a portion of the fund that would be set aside for administration. I didn't
10 have enough feel for whether the \$2 million was the right income or not.

11 SECRETARY SCHEWEL: I would guess that if you didn't do it
12 proportionately and you tried to do it based on actual costs incurred, for example, you'd
13 probably end up charging more of it to indemnification than to other ones, simply
14 because you've got a lot of costs identified as administrative. If you just did it by
15 percentages you'd probably get a rough justice that may be allocating disproportionately
16 small portions of administrative costs and indemnification and not any sort of way that --

17 SENATOR HAWKINS: How about taking it of the top?

18 MS. WASS: That's basically what is happening.

19 SENATOR HAWKINS: Just take it off the top and don't spell it out
20 whether it's ten or twenty.

21 MR. MAJORS: That's basically what's going to happen, it's going to
22 come off the top.

23 SECRETARY SCHEWEL: Then you've still got to allocate it.

24 SENATOR HAWKINS: Are you talking about the administrative costs?

25 SECRETARY SCHEWEL: Let's say in year one the administrative costs
26 are one percent, so all the other funds got ninety-nine percent. The question is, if you
27 take the one percent where do you take it out of? How does it affect the other funds?

28 SENATOR HAWKINS: If I gave you a dollar and it took a penny to run
29 the corporation, you'd put the penny aside and the other ninety-nine cents you divide
30 along proportions we're talking about, and it all comes out the same.

31 MS. WASS: It's really a fund accounting issue, it's really an accounting
32 issue how you allocate costs to each. The way we're setting up the endowment is that
33 we're going to have separate pots of money and separate accounting for each fund. In
34 fund accounting generally you would proportionately charge, and also interest is the same
35 way. You would proportionately accrue interest from each fund.

36 SENATOR HAWKINS: But it all comes our of the same pot with the
37 same obligations.

38 SECRETARY SCHEWEL: We figured out how to solve it. We'll just
39 have the Executive Director work free, and then we wouldn't have to worry about it.

40 SENATOR HAWKINS: That works.

41 MR. CURRIN: It's almost four o'clock.

42 DR. MORRIS: I assume the administrative costs are coming off the top,

1 are deducted from the programs and sensitive to keep administrative costs as lean as you
2 can, because you have more money to go in the programs. We are suggesting a couple of
3 new program officers, so there would be some change.

4 SENATOR RUFF: Mr. Chairman, I think you've all done a good job.

5 SENATOR HAWKINS: No question about it. Other states that have
6 securitized, is there any model out there that anyone else has tried to put together as far as
7 structure in this securitization --

8 MR. CURRIN: Some others have done it, made indemnification
9 payments one for all and put money into economic development. I could get you some
10 updated information on that.

11 DR. MORRIS: I would think more states have done that.

12 SENATOR HAWKINS: I think this is a great starting point, and you all
13 have done a great job. Academics can do a great job.

14 DR. MORRIS: That's why we put that education category ahead.

15 SENATOR WAMPLER: Mr. Chairman, two very quick points. The first
16 one is under scholarships. I see where you put more emphasis on loan repayment, and I
17 think that follows the Southside model more than it would the Southwest model.

18 DR. MORRIS: That's correct.

19 SENATOR WAMPLER: I'm not sure that the Southwest gang is ready to
20 say that we loan dollars, and I'm not sure that what you presented is mutually exclusive.
21 I just respectfully let you know that there's another school of thought on how we might
22 endow scholarships or award them.

23 SENATOR HAWKINS: Each region needs some flexibility in trying to
24 deal with those problems. I think we can come up with language for that.

25 SENATOR WAMPLER: Mr. Chairman, if I could go to the second point,
26 then, I heard Stephanie say that there was consideration of doing only non-taxable issues,
27 issuance of non-taxable bonds. I'm curious, without going into a detailed examination, of
28 why we would do that. Is there a thought on the part of the administration why we would
29 consider taxable versus non-taxable? Why not do a mix?

30 SECRETARY SCHEWEL: This member of the administration is not
31 capable of answering that question.

32 MS. WASS: The more tax exempt we can issue the cheaper it is for us. It
33 is cheaper in the long run for us, and we are restricted on our earnings at that point, and
34 our annual cash flows are restricted, but the cost of the bonds will be less.

35 SENATOR WAMPLER: My point, without arguing, and I mean that
36 respectfully, without arguing the point it seems to me we might consider, and I don't
37 know that this is really the subject of what this Task Force is charged with. As you look
38 on page nine, of what we ultimately want to spend our proceeds on to accomplish,
39 somebody's going to have to do a lot more convincing of me that we need to do only tax
40 exempt. I think I understand where the market is today, but I think we need to have
41 flexibility in both taxable and tax exempt. That's the end of that sermon, Mr. Chairman.

42 SENATOR HAWKINS: I think when you first started looking into the

1 securitization aspect and gave a report back to the Commission it was pretty much the
2 consensus that we do some sort of mix to give some flexibility with tax and un-taxable
3 status. So, I think that's something we need to talk about.

4 MS. WASS: Since then we've talked to the Morgan Stanley underwriter
5 and bond council, and they have advised us that we're able to do one hundred per cent tax
6 exempt and still fund the type of projects we have discussed in this plan because of the
7 way, bond council can help. Bonds are backed by government funds such as the MSA
8 revenue. As far as the use of funds, the only concern, the indemnification payments are
9 fine, and the type of projects we've funded in the past are fine. The real concern is what
10 proceeds would come back to the Commission. For example, if we were to invest money
11 in something or loan money out and receive a return that would be a higher percentage
12 rate than what we were allowed to earn, and that's the concern. The thing with capital
13 access and some of the loans we're talking about, I think the Commission was intending
14 to grant the money to some entity that would then administer that loan and loan out that
15 money so it would not directly be returned to the Commission.

16 SENATOR WAMPLER: Mr. Chairman, the last thing I'll say from a
17 remote site in Bristol with ice falling on the street, I hope we're able to engage in that part
18 of the debate what the proper mix is. I hope this report is adopted and it gives comfort to
19 the administration to move forward with the securitization, and then we can have a
20 pleasant debate as to what is the proper mix. That's pretty much all I wanted to say from
21 this end.

22 SECRETARY SCHEWEL: I will say from the administration's point of
23 view I don't think the mix is a policy issue, I think it's a technical issue, what works for
24 the projects that the Commission wants to do.

25 SENATOR WAMPLER: I don't disagree, I think you're right.

26 MR. MAJORS: Tom and I certainly don't see this report as getting into
27 that or that being the role of this particular cast. Most of you have another role, which is
28 on the Commission. From the Task Force perspective we're looking more at percentages
29 and cash flow rather than which way is taxable or non-taxable. That's something that
30 needs to be decided based on what works best.

31 MS. WASS: There is a first meeting of the securitization technical
32 working group tomorrow afternoon, now by conference call. That will include the
33 underwriters, the bond council, treasury and Commission staff. Basically, all the players
34 including the Commonwealth financial advisor?

35 MS. TERRY: This is Mary Sue, and I'm aware that I'm not a member of
36 this group, but with the Chairman's permission I'd like to follow up on something that
37 Senator Wampler said about scholarships.

38 DR. MORRIS: Go ahead.

39 MS. TERRY: I'm certainly not aware of any difference between Southside
40 and Southwest, but I'm focusing on the next to the last bullet point on page nine.
41 Funding cannot be used to finance endowments. Following up on what Senator Wampler
42 said, I could envision a situation where this Commission put out a challenge grant in

1 Southside and maybe under the leadership of Governor Baliles and a challenge grant in
2 the Southwest under the leadership of maybe Governor Holton, then offered an
3 opportunity for these individuals on behalf of their respective regions to leverage those
4 monies through Appalachian Power and Telecom's and all the rest to create substantial
5 private sector scholarship funds that could be regionally based. I'm just wondering if that
6 idea had any potential merit at all. If saying that funding cannot be used to finance
7 endowments might limit our opportunity down the road to leverage a small amount of
8 money by giving respected leaders in these regions the opportunity to raise money on a
9 matching basis.

10 DR. MORRIS: We approached it the way that most foundations approach
11 it which is not to give money to endowments, because if you start down that road then the
12 requests will be endless. There's a lot of opportunities for matching all sorts of activities
13 and leveraging throughout the tobacco regions but not with regard to setting up
14 endowments. It's only in that limited area that that would be restrictions.

15 Are there other comments or questions? I guess our intent would be to make the
16 minimum revisions we talked about here this afternoon. Once again, I went back and
17 stimulated by the Minutes from our last meeting and looked at the code language for the
18 Commission, and I guess the Commission members are more familiar with it than I am.
19 We ought to probably put in the report the language, quote, "That the stimulation of
20 economic growth and development in tobacco dependent communities in an equitable
21 manner throughout Southside and Southwest regions of the Commonwealth to assist such
22 communities in reducing their dependency on or finding alternative uses for tobacco and
23 tobacco-related businesses." I think that clearly is what this proposal attempted to do.
24 We will see that specific language is included in the report, and I think we have kept faith
25 with that statutory directive.

26 MR. MAJORS: What I've heard in addition to that would be the two
27 revisions on page nine under general funding policies. One recognizing indemnification
28 and then saying these policies reflect and deal with the other categories. Then taking out
29 that first year under the operating costs.

30 DR. MORRIS: Correct. On page five under Leadership we want to make
31 it clear that we're not intending to fund or supplement local leadership programs but or
32 supplant those.

33 MR. MAJORS: Right.

34 DR. MORRIS: Now we can spell that out more clearly, both in the
35 funding policies and on page five, but it could still leave open the Commission for
36 spending for leadership.

37 SENATOR HAWKINS: It's my understanding after today's meeting this
38 draft will be sent out to the membership so they'll be able to scrutinize it?

39 DR. MORRIS: Yes, that's our intention.

40 SENATOR WAMPLER: Mr. Chairman, this is Senator Wampler.

41 DR. MORRIS: Yes.

42 SENATOR WAMPLER: I think Senator Ruff hit a very good point and

1 following up on what Senator Hawkins said. As this report moves forward and our local
2 economic developers and localities have a chance to digest what the Commission may or
3 may not enact or approve. I think, Carthan, if memory serves me right, we are trying to
4 do a 19 December meeting?

5 MR. CURRIN: Yes, sir.

6 SENATOR WAMPLER: I think as we receive either our bullet comments
7 back from those folks or greater detail from our regional economic developers, we may
8 want to reference this report, we may decide that, the Commission may decide to go into
9 greater detail. I think it gives us a very good blueprint to work from. Who knows what
10 the Commission may do, we may add more to it or it might not know what the Governor's
11 looking for in terms of the details of this report, but I hope this answers a good bit of
12 what he's concerned with. If we need more detail I'm sure our folks on the local level and
13 the Commission will be glad to provide whatever detail he's looking for.

14 SECRETARY SCHEWEL: Yes, I don't know for certain what he's looking
15 for, but I'm very comfortable with this, and I'm certainly comfortable recommending this
16 to him. I think his position all along is that at this point there's no right or wrong, just
17 let's have a plan that's rational. Obviously there's a host of rational plans, but let's have
18 one rational, and then that'll give us a road map. I certainly would be very comfortable
19 recommending this.

20 DR. MORRIS: My assumption, William, is, it's December the 4th, and the
21 Governor's looking for something soon. I don't know where the Commission is on that.

22 SENATOR HAWKINS: Charlie, I personally want to congratulate you
23 that you were wearing a banker's hat during these deliberations and your lawyer's hat,
24 because I notice that it is just nine pages, and most lawyers cannot stand having just nine
25 pages. So, I do personally appreciate the banker's approach to business.

26 MR. MAJORS: I moved a long way.

27 DR. MORRIS: Senator Ruff recommended twenty pages, and he cut that
28 a little bit more in half. Thank you for all this good work, and I'm sorry we had to end up
29 in Richmond and not Roanoke, but we'll make these revisions and send them out to the
30 Commission.

31 MR. MAJORS: Do we send that out saying this is a recommendation
32 from the Task Force?

33 DR. MORRIS: Yes, Senator Hawkins is shaking his head.

34 SENATOR HAWKINS: With the changes that have been made.

35 DR. MORRIS: Yes, we'll make those changes.

36 SENATOR HAWKINS: Carthan, can you put this on your web page?

37 MR. CURRIN: Yes, sir.

38 DR. MORRIS: Do you want to vote o this, people on the phone? All in
39 favor say aye? (Ayes) -- We can't do the vote on the phone.

40 SENATOR HAWKINS: With this sort of draft there may have to be some
41 understanding, since the 18th is fairly close on us. We may have to have a discussion in
42 the Commission meeting about the draft proposal and then work on a final proposal later

1 on, once people have a comfort zone. I don't think we can push anything through without
2 having some sort of discussion. That's got to be understood.

3 SENATOR RUFF: Mr. Chairman, I would hope that the staff would get
4 this in everyone's hands and ask for input as quickly as possible.

5 SENATOR HAWKINS: If we can do it by the 18th that's fine, but it takes
6 some, or if it will take a day or two more or another month, this is still, this is too
7 important, and everybody should have this.

8 DR. MORRIS: The last meeting's minutes said that if we got it through
9 the Task Force that it would be easy to get through the Commission. (Laughter.)

10 William and Charlie and Mary Sue, we're going to end here, so thank you all.
11 Before we do that is there anyone here in the audience that has anything that they want to
12 say? All right, thank you.

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16 PROCEEDINGS CONCLUDED
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37 CERTIFICATE OF THE COURT REPORTER
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40 I, Medford W. Howard, was the Court Reporter who took down and
41 transcribed the Minutes of the Tobacco Indemnification and Community Revitalization
42 Commission Public Meeting, Long Range Planning Task Force, on Wednesday,

CRANE-SNEAD & ASSOCIATES, INC.

1 December 4, 2002 at 3:00 p.m. at Senate Room 4, Capitol Building, Richmond, Virginia.
2 Given under my hand this 13th day of December, 2002.
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7 _____
8 Medford W. Howard
9 Registered Professional Reporter
10 Notary Public for the State of Virginia at Large
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12 My Commission Expires: October 31, 2006
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